"Ontario continues to lead the way in promoting investor confidence. Legislation introduced by the provincial government has increased sanctions for wrong-doing and given us the authority to introduce measures that will ensure corporate financial statements mean what they appear to mean and auditors are responsible to shareholders. Ultimately, such reforms will help foster capital markets that are fair to investors, and an economy able to compete."

David A. Brown, Q.C.
Chair, Ontario Securities Commission

ANNUAL REPORT 2003

OSC

ONTARIO SECURITIES COMMISSION

"The Ontario Securities Commission strives to demonstrate the way to achieve a balance between protecting the rights of shareholders and the need to ensure market efficiency. In the wake of the U.S. financial reporting scandals, clearly the most important priority the OSC set for itself this past year — and for the foreseeable future — was to re-build investor confidence in our capital markets."

Charles F. Macfarlane,
Executive Director, Ontario Securities Commission

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Our Vision

- Canadian financial markets that are attractive to domestic and international investors, issuers and intermediaries because they have integrity and are cost-efficient.

Our Mandate

- To provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in their integrity.

Our Approach

- Proactive, innovative and cost effective in carrying out our mandate
- Fair and rigorous in applying the rules to the marketplace
- Timely, flexible and sensible in applying our regulatory powers to a rapidly changing marketplace

IDENTIFYING KEY TRENDS AND CHANGES

The OSC has identified a number of key trends and changes affecting our business environment, capital markets, market participants and the global regulatory framework. Over the last number of years, and particularly in fiscal 2003, we have taken action to address the following:

Enhancing Public Confidence in Capital Markets

Public confidence in capital markets around the world has declined significantly. Trust in financial reporting, auditing and corporate governance structures has been damaged by U.S. corporate accounting failures and bankruptcies.

Streamlining the Securities Regulatory Process

The costs and complexities of doing business with many different regulators, all with differing rules and regulations, are generating increasing dissatisfaction with the structure of financial services regulation, and in particular, securities regulation, in Canada.

"As a passionate consumer advocate, I have focused on the issue of investor education and helped drive the creation of the Investor *e*-ducation Fund. The Fund created an online tool that allows investors to see that investing is not 'rocket science' and that they can develop the know-how to protect their best interests."

Kerry D. Adams, FCA
Commissioner

Global Integration of Markets and Market Participants

As capital flows become global, so do the market intermediaries and infrastructure servicing the financial industry. Many of the largest intermediaries are global conglomerates combining banking, insurance and securities services in one entity.

Changing Investor Demographics

Institutional investors are becoming larger and more sophisticated, while investment in the markets by retail investors will continue to grow — both directly and indirectly through participation in pension funds. While each group needs to have confidence in the integrity of the capital markets, their information and education needs may be very different.

Rapid Pace of Innovation

Competition is driving market innovation and the creation of ever more sophisticated financial products, trading techniques and strategies. Technology facilitates these changes, making innovative products and services easier and cheaper to design, market and deliver to the consumer. Such changes have fundamentally altered the structure of the financial environment.

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FACING CHALLENGES WITH CREATIVE AND INNOVATIVE SOLUTIONS

For Canadian financial markets to be attractive to all market participants, they must be, and must be seen to be, fair and efficient while maintaining protection for investors. The OSC continues to pursue creative and innovative solutions to new challenges and opportunities, to re-evaluate existing practices in light of changing circumstances, and to make decisions that keep pace with fast changing markets.

Leading the Way With a Four-Year Strategic Plan

The OSC has developed a four-year strategic plan that focuses on making our capital markets safer, more efficient and easier to access and use. Elements of the plan include:

- Promoting harmonization of regulatory systems both domestically and internationally, including the pursuit of a more effective national securities regulatory system
- Undertaking prevention-oriented activities, including proactive public education
- Taking a risk-based approach to regulation
- Being less prescriptive and more flexible in our regulatory approach wherever practical

Key Outcomes

Our strategic plan identifies specific initiatives and results to achieve the following outcomes:

1. Ontario's capital markets and financial services regulatory system will be fully consolidated, harmonized nationally, and coordinated internationally.
2. Regulatory interventions in Ontario will be timely, balanced and proportionate to the risks involved.
3. Investors, issuers and other market participants who use the Ontario capital markets will be afforded access, protection, education and information at levels similar or superior to those of the best of our peer group.

A review of our initiatives and outcomes for fiscal 2003 begins on page 16.

WHO WE ARE AND WHAT WE DO

As the regulatory body responsible for overseeing the securities industry in Ontario, the Ontario Securities Commission administers the *Securities Act*, the *Commodity Futures Act* and certain provisions of the *Ontario Business Corporations Act*. To effectively carry out its mandate, the Commission is organized into 10 core branches.

Capital Markets

Encompassing Market Regulation, Compliance and Registration, the Capital Markets Branch is responsible for the regulation of registrants, markets, and clearing and settlement systems.

Corporate Finance

Responsible for the regulation of public companies, the Corporate Finance Branch oversees offerings, continuous disclosure filings, take-over bids, mergers and acquisitions, and all related administration and document management.

Investment Funds

A new branch that interprets and administers securities laws, rules and policies relating to investment funds (including conventional mutual funds), and develops new laws, rules and policies to adapt to the changing investment fund industry environment.

Enforcement

With the objective of protecting investors and promoting market integrity, the Enforcement Branch ensures that Ontario securities laws are upheld through equitable and effective enforcement.

Communications

Working closely with OSC branches, the Communications Branch ensures that the Commission's stakeholders are well informed of OSC activities, directives and policy advances.

Corporate Services

By building and maintaining the core internal systems and infrastructure, the Corporate Services Branch helps the Commission's constituents to work effectively and efficiently with OSC programs and initiatives.

"As a former Chair of the Investment Funds Institute of Canada, I have a particular interest in ensuring investors are being better served by the mutual fund industry, whereby management companies pay greater attention to fiduciary issues and improved investor education rather than marketing issues."

Harold P. Hands, LL.B.
Commissioner

Office of the General Counsel

Provides senior legal advice and assistance on operational, transactional and regulatory issues to the Chair, Commission and staff. The Office of the General Counsel also leads policy projects — including legislative reform — and supports the branches in the policy development process.

Office of the Chief Accountant

Providing expertise on accounting and policy issues to OSC branches and reporting issuers, the Office of the Chief Accountant also participates in policy development and provides support to OSC projects.

Office of the Secretary

The Office of the Secretary to the Commission is responsible for: ensuring the fair, impartial and efficient operation of the Commission's administrative proceedings, reviews and appeals; providing corporate secretarial services to the Commission's Board; and administering the request for comments procedures.

Office of the Chief Economist

Provides detailed cost-benefit analysis to the OSC and analytical support to policy and operational initiatives. In addition, the Office of the Chief Economist engages in fundamental research on the capital markets and attempts to foster external study of issues.

A MESSAGE FROM THE CHAIR

The end of this fiscal year marked the completion of my first term as Chair of the Ontario Securities Commission. During the past five years, the staff and Board of the OSC have demonstrated the kind of strong leadership that enables us to provide better protection to investors, and to foster fair and efficient capital markets and confidence in their integrity.

Looking back, we were initially focused on making use of our newly acquired rule-making authority to convert approximately 25 to 30 policies into rules each year. We were also busy adding new resources to improve compliance and respond to issues created by new technologies and expanding markets, particularly among retail investors. These new resources were dedicated to strengthening our infrastructure and building a first-class management team. Notably, we put critical systems and processes in place such as enforcement case evaluation and case management systems, risk-based prospectus reviews and stakeholder surveys to name a few.

During this period, we more than doubled the number of staff in our Enforcement Branch. As a result, we have succeeded in working with market participants to re-establish a culture of compliance on the Street.

Over the next few years, we continued to transform policies into rules, albeit at a slower pace, while using our new resources to more effectively regulate our markets. However, the U.S. financial reporting scandals had a sudden and dramatic influence on our agenda. There was little doubt in our minds that the crisis in confidence that hit U.S. markets in the wake of Enron, WorldCom, Global Crossing and other failures was having an impact on Canadian markets.

We took a leadership role by quickly recognizing this reality and the significance it could have for the Ontario market and all of Canada. We recognized that the U.S. reforms contained in the Sarbanes-Oxley Act represented a fundamental change in the way corporations would be governed, securities markets would be regulated, and enforcement actions would be taken.

New Tools Increase Investor Confidence

The Ontario Government has shown exceptional leadership by introducing amendments to the *Securities Act*, providing us with the tools to correct some flaws in the system and to rebalance some of the incentives. The legislation gives us the authority to develop rules that will be as robust as those in the Sarbanes-Oxley Act. These rules, which concern CEO/CFO certification, auditor oversight and the role and composition of audit committees, will help us to restore investor confidence in our capital markets.

The Way Ahead

With most of the intensive work relating to rule-making and investor confidence now behind us, we have an opportunity to address the other major challenges facing our capital markets. We are identifying the big picture items on which we need to focus, allocating resources to analyze problems and develop solutions, and working closely with the industry and other market players to make needed changes. This process will enable the OSC to move ahead of the curve as the markets develop and business models change.

This is a time of opportunity to bring the OSC vision to life by pursuing several broadly based goals. We will continue to reduce red tape, with emphasis on updating regulation to better reflect modern realities, for example, focusing on the provision of advice rather than simply the trading of shares.

David A. Brown Q.C.
Chair

Building Momentum for a National Regulatory System

There are many and compelling priorities for us to concentrate on, with Canada's need for a national securities regulatory system near the top of the list. Remarkably, Canada is one of the few countries in the world that does not have a national securities regulator. As a result, our system of 13 separate provincial and territorial securities regulators creates a lack of uniformity and a multitude of decision-making voices. This patchwork quilt of regulatory requirements makes for a system that is expensive, complicated and inefficient.

While continuing to pursue the goal of a national regulator, we are working with other jurisdictions to improve the existing system by harmonizing securities law across the country through the Uniform Securities Legislation project. Additionally, there are two other promising initiatives currently underway. Provincial ministers responsible for securities legislation have created a committee that is developing ways to improve harmonization among securities regulators, such as a "passport" registration system. In addition, the federal 'Wise Persons' Committee is asking Canadians to focus on fundamental issues in market regulation. We hope these initiatives will be complementary.

Mapping Out a Course of Action

As I look to the future, I am confident that we are well on our way to mapping out a course of action for the next five years that will serve our markets well, allowing them to grow and prosper, and to inspire investor confidence.

I would like to thank our dedicated staff and Commissioners, who have proven their ability to deal with complex issues, devise solutions acceptable to the marketplace and implement them. I particularly want to thank Vice-Chair Howard Wetston, who is leaving the Commission to become Chair of the Ontario Energy Board. Howard has been an integral part of the progress that the OSC has made during the past five years. His wise counsel will be greatly missed.

We have many more challenges ahead of us and I look forward to working with the OSC team and our stakeholders to start solving these very important issues.

David A. Brown, Q.C.
Chair, Ontario Securities Commission

A MESSAGE FROM THE EXECUTIVE DIRECTOR

Over the years, the Ontario Securities Commission has endeavoured to lead the way to achieve a balance between providing protection to investors and ensuring market efficiency. In the wake of the U.S. financial reporting scandals, clearly the most important priority the OSC set for itself this past year — and for the foreseeable future — was to re-build investor confidence in our capital markets.

Building Confidence in the Market and in Our Leadership

We analyzed the impact of the American situation in Canada and consulted with market participants. We reviewed the Sarbanes-Oxley Act and developed a coherent, made-in-Canada response that would communicate to all investors, and particularly to international investors, that our regulatory framework is as robust as U.S. legislation.

As a result of the way OSC staff came together from several branches, we developed and published draft rules covering auditor oversight, CEO/CFO certification of financial information, and the composition and responsibilities of audit committees.

Concurrently, we completed a continuous disclosure review of the TSX 100 companies — a major undertaking considering the many other initiatives underway at the time. The resulting report was reassuring for the marketplace. Indeed, the OSC has greatly improved its continuous disclosure capability over the years, to the point that we are on target to meet or better the goal of reviewing all issuers at least once every four years.

Unifying Initiatives

Leadership for the OSC is also defined by our commitment to take a stand on important issues that help to unify the industry and that affect investor confidence in the long term. This commitment was demonstrated by our involvement with the Canadian Securities Administrators (CSA) on several notable initiatives. The first is the Uniform Securities Legislation project to help harmonize securities laws and practices across the country. Our Chair is a leading proponent of harmonization and has accepted a second five-year term in part to pursue our vision of creating a national securities regulator.

Other major accomplishments with the CSA included the launching of the web-based National Registration Database (NRD) for dealers and advisers, and SEDI, an insider filing system.

Achieving Outcomes

Let me just touch on some of the outcomes that were achieved in other areas of the Commission:

- We implemented a new fee rule at the end of the year, which will bring additional cost savings to the industry while at the same time tying our revenues much more closely to our costs.
- We've made good progress in the development of our new Fair Dealing Model, with a concept paper to be published during fiscal 2004.
- The Regulatory Burden Task Force had made substantial progress by year's end.
- We created a new Investment Funds Branch. The staff made excellent progress on a number of issues, including Point of Sale Disclosure and Fund Governance.
- With respect to policy activities, we saw 10 new rules come into effect this year and published seven others for comment.
- Communications staff restructured the Investor Education area to ensure a clear division between OSC staff and the arms-length Investor *e*-ducation Fund.

Charles F. Macfarlane
Executive Director

Earning Respect in Enforcement

The Enforcement Branch published its "credit for co-operation" policy, which allows market participants to benefit from cooperating with OSC staff during an investigation, while still sending a strong message of deterrence. We also began streamlining some proceedings by using our ability to have settlements approved by the Executive Director.

Our relationship with the RCMP continues to be strengthened. We extended our joint effort by another two years, and we have two additional staff seconded to their Organized Crime Joint Task Force. In fact, we are the first agency that the RCMP has invited to be part of the expanded focus on financial crime announced in the most recent federal budget. We are also increasingly viewed within international circles as being quite accomplished in dealing with money laundering.

Leading by Example

The OSC has grown both in size and profile, and we continue to raise the bar for corporate behaviour. Despite working through a challenging year in the markets, we bolstered some of our own governance practices, including the establishment of an Internal Audit capability. By employing independent auditors to examine our risk control procedures, we have added a new tool to assure our stakeholders that we are working more efficiently and cost-effectively.

Further, we published a paper on our risk-based approach in enforcement, compliance, prospectus reviews and continuous disclosure. As a regulator of a thriving capital market with finite resources, we believe it is imperative to use a decision-making process that helps us select the highest priority, highest risk issues to work on in these areas.

A Culture of Teamwork

The OSC has more than doubled in size over the last five years, to address a lack of resources, and to meet the challenges of a growing and more complex marketplace. We now have exceptional bench strength, and we have created a distinct culture of teamwork. Employee satisfaction levels continue to run ahead of averages for both the public and private sector and have generally increased from year to year. Our goal is to continue to make the OSC a "destination employer", and we are building on initiatives such as our management training program to achieve that goal.

With the appointment of David Brown to a second term as Chair of the OSC, and the outstanding talent and teamwork of our people, I am confident that we are well positioned to be able to respond to rapid changes and to establish the right balance between reducing regulatory burden and protecting investors.

Charles F. Macfarlane
Executive Director
Ontario Securities Commission

THE COMMISSION

Our Commissioners have a diverse range of experience in law, accounting and business. Each is able to play an active role and contribute a valuable perspective on matters that come before the Commission.

The *Securities Act* provides that there be at least nine but no more than fourteen members of the Commission. Each Commissioner is appointed, and may be reappointed, by the Lieutenant Governor in Council for varying terms of office not exceeding five years.

During the fiscal year ending March 31, 2003, there were eleven Commissioners, three of whom were full-time executive managers of the Commission and eight of whom were part-time non-executive Commissioners. On June 30, 2003, Howard I. Wetston, one of the Commission's two full-time Vice-Chairs, resigned to accept a position as Chair of the Ontario Energy Board.

The current composition of the Commission is two full-time members (the Chair and Vice-Chair) and eleven part-time members. It is anticipated that a new Vice-Chair will be appointed during the current fiscal year.

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THE COMMISSION

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COMMISSION MEMBERS

1 **David A. Brown**, Q.C, Chair Appointed 04/98
A former senior corporate law partner with Davies Ward & Beck, Mr. Brown, in addition to his full-time role as OSC Chair, is Chair of the Governing Council of the Canadian Public Accountability Board and a senior member of the Canadian Securities Administrators. He was appointed Queen's Counsel in 1984. His appointment expires in April 2008.

2 **Howard I. Wetston**, Q.C, Vice-Chair Appointed 01/99
A member of the Ontario and Alberta Bars, Mr. Wetston was appointed Queen's Counsel in 1990, and has extensive experience in economic regulation and administrative law. Prior to joining the Commission he was a judge of the Federal Court of Canada. Mr. Wetston left the Commission in June 2003 to become Chair of the Ontario Energy Board.

3 **Paul M. Moore**, Q.C., Vice-Chair Appointed 01/99
A member of the Ontario Bar, Mr. Moore was appointed Queen's Counsel in 1982, and has extensive experience in corporate and securities law. Most recently, Mr. Moore was a partner with Tory Tory DesLauriers & Binnington (now Torys) where he headed up the firm's derivative practice group. His current appointment expires in February 2006.

4 **Kerry D. Adams**, FCA Appointed 09/96
A former partner in the financial institutions branch of KPMG, and past General Manager, Investment Banking for ScotiaBank, Ms. Adams is president of K. Adams & Associates. She is Chair of the Investor *e*-ducation Fund. Her current appointment expires in August 2004.

5 **Derek Brown**, LL.B. Appointed 10/97
Former Vice President and Director of RBC Dominion Securities Inc., Mr. Brown is currently Adjunct Professor of Finance at the Joseph L. Rotman Centre for Management of the University of Toronto. His current appointment expires in October 2003.

6 **Robert W. Davis**, FCA Appointed 11/99
Currently President of Camiton Inc., Mr. Davis is a former Chief Operating Partner of the accounting firm of Peat Marwick Mitchell. He is Chair of the OSC's Audit and Finance Committee. His current appointment expires in November 2005.

7 **Harold P. Hands**, LL.B. Appointed 04/02
Mr. Hands served as the senior legal officer at Mackenzie Financial Corporation from 1987 until his retirement in 2001. He is a former Chair of the Investment Funds Institute of Canada, and current Chair of the OSC's Compensation Committee. His current appointment expires in April 2005.

8 **Robert W. Korthals**, MBA Appointed 04/95
Currently Chairman of the Ontario Teacher's Pension Plan Board, Mr. Korthals served as President of the Toronto-Dominion Bank from 1981 to 1995. His current appointment expires in April 2004.

9 **M. Theresa (Terry) McLeod**, MBA, C.F.A. Appointed 11/99
A former investment banker with Pitfield, Mackay, Ross & Company, Merrill Lynch Canada Inc. and ScotiaMcLeod Inc., Mrs. McLeod is currently the president of McLeod Capital Corporation. Her current appointment expires in October 2005.

10 **H. Lorne Morphy**, Q.C. Appointed 07/01
A member of the Ontario Bar since 1962 and appointed Queen's Counsel in 1975, Mr. Morphy is counsel to the Toronto Office of Davies Ward Phillips & Vineberg. He is Chair of the OSC's Corporate Governance and Nominating Committee. His current appointment expires in July 2004.

11 **Robert L. Shirriff**, Q.C. Appointed 03/02
Appointed Queen's Counsel in 1971, Mr. Shirriff is a partner and past Chair of the law firm Fasken Martineau DuMoulin. He also serves as Chair of the De Beers Group of Companies in Canada. His current appointment expires in March 2005.

Following our March 31, 2003 year-end, three new Commissioners were appointed.

12 **Paul K. Bates** Appointed 06/03
Former CEO of Charles Schwab Canada, Mr. Bates serves on boards in both the for-profit and not-for-profit sectors, is a management consultant and is a faculty member at the University of Toronto's Joseph L. Rotman School of Management. His current appointment expires in June 2006.

13 **Suresh Thakrar**, FICB Appointed 06/03
A former Vice-President of RBC Financial Group, where he has over the past 30 years held a number of senior positions across various areas of the Bank. Mr. Thakrar is currently on a sabbatical and engaged in a number of philanthropic activities in Canada and abroad. His current appointment expires in June 2006.

14 **Wendell S. Wigle**, Q.C. Appointed 05/03
A member of the Ontario Bar since 1957 and appointed Queen's Counsel in 1972, Mr. Wigle is senior litigation counsel at Hughes, Amys. He has served as President of the Advocates' Society (1977–78) and the Medico-Legal Society of Toronto (1984–85). His current appointment expires in May 2006.

A COMMITMENT TO GOOD GOVERNANCE, ACCOUNTABILITY AND TRANSPARENCY

It is important to demonstrate to our stakeholders that the OSC is a well-governed organization, and that we are committed to being accountable for our actions, and for the fulfillment of our mandate for the market. As the agency responsible for setting conduct for market participants in Ontario, we must also meet standards of conduct that are transparent and equal to ensure our credibility. For these reasons, the Commission's governance structure is much like that of a public company, with similar checks and balances to those afforded by having a Board of Directors.

A COMMITMENT TO GOOD GOVERNANCE, ACCOUNTABILITY AND TRANSPARENCY

It is important to demonstrate to our stakeholders that the OSC is a transparent organization, and that we are committed to being accountable for our actions, and for the funds we spend to regulate the market. As the agency that sets the rules of conduct for market participants in Ontario, living up to the same standards of conduct that we impose on others is critical to ensure our credibility. That is one of the reasons why the Commission's governance structure is much like that of a public company, with similar checks and balances to those afforded by having a Board of Directors.

THE ROLE OF OUR COMMISSIONERS

Audit and Finance Committee
- Robert W. Davis (Chair)
- Paul K. Bates
- Derek Brown
- Robert W. Korthals
- Robert L. Shirriff

Governance and Nominating Committee
- H. Lorne Morphy (Chair)
- Kerry D. Adams
- Derek Brown
- Robert W. Davis
- Harold P. Hands
- Robert W. Korthals
- M. Theresa McLeod
- Suresh Thakrar
- David A. Brown (*ex officio* member)

Compensation Committee
- Harold P. Hands (Chair)
- Kerry D. Adams
- M. Theresa McLeod
- Robert L. Shirriff

Adjudicative Committee
- Paul Moore (Chair)
- Lorne Morphy
- Wendell Wigle

The appointed members of the Commission serve as the Commission's governing body. The Commissioners are charged with statutory responsibility for the administration of the *Securities Act*. They discharge this responsibility through the operation of three related but independent functions.

1) Policy body. The Commissioners set the OSC's overall goals and priorities and oversee their implementation through the review of the Commission's policy, rule-making, public comment and legislative amendment processes. As a policy body, the Commission meets every two weeks, at which time policy and rule-making initiatives recommended by OSC staff are reviewed and, if thought appropriate, approved. When approved, new or amended rules are recommended to the Minister of Finance for final approval before implementation. A quorum of two Commissioners also meets twice weekly to review and approve applications for exemptive relief.

2) Board of Directors. The Commissioners oversee the OSC's strategic planning, budgeting, operations and financial reporting policies and procedures and serve on the Committees of the Board. The Commissioners meet as a full board at least quarterly, and in committee more frequently as the need arises. There are three standing Committees of the Board: the Audit and Finance Committee, the Governance and Nominating Committee and the Compensation Committee. All of the members of these Committees, including their respective Chairs, are independent part-time Commissioners. The Chair of the Commission is an *ex officio*, non-voting member of the Governance and Nominating Committee. The Commission's auditor, the Provincial Auditor, reports directly to the Audit and Finance Committee, as does the Commission's internal audit function.

3) Adjudicative body. Lastly, Commissioners serve on the OSC's tribunals in the exercise of its adjudicative responsibilities. Panels comprised of up to three Commissioners hear matters brought by the Commission's Enforcement Branch or by applicants to adjudicate on allegations of breaches of the Act. The Adjudicative Committee of the Commission is charged with the oversight of the OSC's adjudicative policies and procedures to ensure, among other things, that the adjudicative process remains independent of staff of the Commission.

WE LISTEN BEFORE WE ACT

We believe that effective communications with the stakeholders who are affected by our actions are an essential part of the regulatory process. Consequently, OSC staff members have established a total of 16 advisory committees to provide input on important securities regulation issues. These committees are made up of accomplished professionals in the marketplace from a broad range of backgrounds and disciplines. They understand that we listen to their views and that we value their input.

ONLINE TO GREATER TRANSPARENCY

A more complete description of the Commission's structure and governance, including the mandates of Committees of the Board and the Commission, may be found on our website at www.osc.gov.on.ca. We also list the mandates and membership of our existing 16 consultative committees.

THE RULE-MAKING PROCESS:

Good Governance, Accountability and Transparency in Action

As the regulator of Ontario's capital markets, we recognize the importance of setting an example in the areas of transparency, accountability and good governance. One very clear demonstration of our efforts is in the area of rule-making. We have the authority to make rules that become binding. This authority is balanced by mechanisms to ensure appropriate procedural safeguards, such as supervision by elected officials and an opportunity for public participation.

Our rule-making process typically involves the following steps: identifying the issue; full consultation with stakeholders; careful consideration by our staff and Commissioners; publishing to allow stakeholders to provide yet more feedback; and final approval by our Commission and a ministerial review. This process is a highly effective way for us to deliver positive outcomes within a prescribed time period.

1. Identifying the Issue

In every instance where rule-making is involved, we begin by identifying the issue. This year, rebuilding investor confidence was the issue at the top of our agenda. We assessed the lessons learned from the U.S. financial reporting scandals, created a committee of senior staff to analyze issues, gained insights from the U.S. response as expressed by the Sarbanes-Oxley Act, gathered data and consulted with stakeholders to determine the best possible response.

2. Consulting with Stakeholders

Our staff members often establish committees to gain valuable input on important securities regulation issues. We continue to refine and improve our approach to consultation, as demonstrated by the creation this year of a dedicated website to illustrate our proposed Fair Dealing Model, which prompted far more comments than we usually receive and furthered our understanding of the needs of many of our stakeholders.

Ontario Securities Commission
a changing commission for a changing market
sound on
The Problems
Fair Dealing Model
How It Works
Concept Paper
OSC Website
Fair Dealing: INTRODUCTION
You are in the Introduction section. When finished, click on any other navigation button above to continue.
A New Fair Deal for Investors and the Industry
Conceptual Draft for Public Review
The impact of recent market events on investors has created critical issues for both corporations and the investment industry. Not only are public companies and their executives under scrutiny. So is the level of service delivered by the industry for its share of investor's dollars. The broad group of investors who counted on the system to protect their retirement savings, now need to trust it for a fair deal.
Against this backdrop, the Ontario Securities Commission has brought together a diverse group of experienced industry and investment experts, to assist senior Commission staff with the creation of a new, holistic, approach. This approach focuses on the relationship between the investor and service provider. By requiring the clients and service providers to clarify their relationships, we can apply standards consistently across a variety of services, service providers, and financial instruments.
For thirty years, our regulations have focused on products and transactions. Today, our proposed regulations focus on three basic relationships. By better defining these
David Brown
Chairman
Ontario Securities Commission

3. Approval for Publication of a Draft Rule

As part of our consultation process, we publish proposed rules for comment, providing an opportunity for stakeholder input. This year, we proposed new requirements for financial statements and other continuous disclosure by public companies. The draft rule we issued incorporates modifications made in response to public and industry feedback on the original proposal published last year.

4. Final Review by the Commission and Ministerial Approval

Prior to becoming a rule, the OSC's work is reviewed by the Commission and delivered to the Minister of Finance for consideration by elected officials. The following rules and policies came into force during 2002/2003:

11–201: Delivery of Documents by Electronic Means (amendments)

12–201: Mutual Reliance Review System for Exemptive Relief Applications (amendments)

41–601: Capital Pool Companies

45–502: Dividend or Interest Reinvestment and Stock Dividend Plans (amendments)

45–503: Trades to Employees, Executives and Consultants (amendments)

46–201: Escrow for Initial Public Offerings

51–201: Disclosure Standards

54–101: Communication with Beneficial Owners of Securities of a Reporting Issuer

62–501: Prohibited Stock Market Purchases of the Offeree's Securities by the Offeror during a Take-over bid

62–601: Securities Exchange Take-over Bids — Trades in Offeror's Securities (amendments)

5. Measuring Outcomes

An important aspect of the entire rule-making process is to measure outcomes. For example, following the enactment of the exempt financing rule, which focuses investment eligibility on the investors' means rather than on a minimum threshold value for transactions, we conducted a follow-up study. We found that this policy change unlocked a significant pool of capital and directed it to small and medium enterprises in need of new funding sources, and contributed to a tripling of investments in 2002.

"I'm a firm believer that the markets are a good way of allocating capital. Being involved on the regulatory side following my career in banking provides me with an opportunity to help in making the market function better, not necessarily with more regulations but with more effective regulations."

Robert W. Korthals, MBA
Commissioner

ACHIEVEMENTS IN 2002/2003

OSC staff either completed or made significant progress on a number of important projects during the fiscal year. One of the ways we ensure accountability is to measure the results of our efforts against our strategic goals.

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OPERATIONAL AND POLICY HIGHLIGHTS

On the following pages are highlights of the initiatives the OSC worked on during this fiscal year within the framework of our strategic goals. For a full review of our Statement of Priorities and initiatives for 2002/2003, visit our website at www.osc.gov.on.ca.

1. Harmonize, Simplify and Streamline.

Developed Policy on Reporting Equity Monetizations

Acting jointly with other securities commissions, we published for comment a proposed instrument which clarifies that insiders must report derivative-based transactions, including equity monetization transactions. The instrument would ensure that insider activities involving derivative-based transactions are fully transparent to the market. If not reported, such transactions shield from public view changes in insiders' true economic position in their issuers.

Proposed Blueprint for Uniform Securities Law in Canada

In association with the CSA, we published a concept proposal for uniform securities laws (USL) in Canada. The proposal envisions a "platform" Uniform Act that would set out fundamental rights, powers and obligations, and Uniform Rules that would set out detailed requirements. The proposed framework also incorporates simplified and streamlined regulation in certain areas, simplifies inter-jurisdictional registration of firms and individuals, and allows securities regulators to delegate decision-making across all regulatory functions to another securities regulator.

Adopted New Policy on Disclosure Standards

Together with other Canadian securities regulators, we have adopted a policy statement that provides guidance and best practices on corporate disclosure and assists public companies in avoiding selective disclosure, which occurs when a company discloses material non-public information to one or more individuals or companies and not broadly to the investing public. The recommendations are not intended to be prescriptive, rather they are meant to encourage companies to adopt the suggested measures, flexibly and sensibly to fit their particular situation.

Proposed National Disclosure Rule

As a means to end the situation in which companies and investment funds must meet different disclosure requirements in multiple jurisdictions in which they report, two new national disclosure rules were proposed by the CSA. Public companies and investment funds would have to abide by only a single set of securities requirements in filing their financial statements and other continuous disclosure documents. The rule would also make filing documents simpler and less costly for the firms involved.

Encouraged Companies to Improve Executive Compensation Disclosure

In concert with other securities regulators, we presented the results of a review of how well publicly-traded companies comply with executive compensation disclosure requirements. We found that 95 per cent of the companies studied tended to discuss executive compensation in very general terms. We believe issuers will note our findings and raise the bar on their compensation disclosure.

Completed Changes in the Regulation of Marketplaces

We amended the Toronto Stock Exchange's recognition order to reflect its new structure and its status as a self-listed exchange (the first in North America). We recognized Canada's first quotation and trade reporting system (QTRS), the Canadian Trading and Quotation System Inc. (CNQ). And we entered into a memorandum of understanding with other provincial securities commissions that sets out a process for streamlined oversight of exchanges and QTRSs.

Continued to Focus on the Clearing and Settlement Process

OSC staff participated in a number of projects relating to securities clearing and settlement. We led a CSA task force to develop modern, uniform commercial law governing securities transfers, with a view to publishing a consultative draft Act by mid-2003. Another CSA committee is considering regulatory reform measures to assist the industry's straight-through processing (STP) initiative, and conducting an STP readiness assessment survey of market participants. We also contributed to international initiatives, including a *Hague Conference on Private International Law* Convention and the COSRA working party on clearance and settlement.

2. Minimize Regulations. Maximize Effectiveness.

Published a Risk-Based Approach for More Effective Regulation

We published the risk-based criteria used by staff throughout the Commission to determine whether to conduct detailed reviews of market participants and their activities. The risk criteria are designed to allow us to apply greater scrutiny to the situations most likely to have an adverse impact on the capital markets, while reducing the regulatory burden on those market participants who pose a lower risk. The release of this information is expected to increase the transparency of important regulatory functions and educate market participants about how we evaluate their activities.

Announced Policy to Encourage Cooperation

We introduced a "credit for cooperation" policy which allows market participants to benefit from cooperating with our staff during an investigation. This policy is intended to encourage firms and individuals to work with regulators to resolve compliance-related problems, while giving us greater flexibility when the party has cooperated fully during the investigation and has self-policed, self-reported and self-corrected the problems. The policy enables OSC staff to choose from among a number of approaches to resolving issues.

Established Office of International Affairs

For many years, OSC staff has participated in a variety of international organizations that work to improve the regulation of financial services throughout the world. To co-ordinate these activities, we established the Office of International Affairs to provide OSC staff and stakeholders with information gained through international initiatives, thereby promoting harmonization of domestic and international standards where appropriate. The Office of International Affairs will also play a strategic role in development of our international regulatory initiatives, while ensuring that our objectives are furthered through participation in international meetings and organizations.

Initiated a Review of Public Company MD&A

Along with other Canadian Securities regulators, we began a process to review how well publicly-traded companies comply with Management Discussion and Analysis (MD&A) guidelines. Management is required to discuss the dynamics of the business and analyze the financial statements. As part of the reviews by the CSA, regulators will contact companies to discuss disclosure that falls short of the standards and, for serious deficiencies in compliance, could request that documents be refiled.

Improved Internal Risk Management Capabilities

A detailed risk assessment process was completed to identify the top risks that could impact the achievement of OSC business objectives. A three-year internal audit plan is underway to address these risks. We have substantially completed a Business Continuity Plan that is designed to allow the continuation of critical regulatory services should the OSC face a significant disruption to its operations. Interim arrangements for offsite facilities and transitional continuity arrangements are in place.

Worked on Legislative Changes Aimed at Better Protecting Investors

OSC staff worked with Ministry staff to implement new legislation recommended by the Five Year Review Committee. The legislation gives the OSC new powers to levy administrative fines up to $1 million, order disgorgement, and make rules necessary to bolster investor confidence. It increases the penalties courts can levy for securities offences. And other changes, which are not yet proclaimed, would give investors new civil remedies, and create new prohibitions against securities fraud, market manipulation and making a misleading or untrue statement.

Created a New Investment Funds Branch

We launched a new branch responsible for all policy and operational work relating to investment funds, in recognition of the importance of this market sector. During the year, staff continued to lead the CSA mutual fund governance project, conducting extensive consultations with stakeholder groups and beginning work on a draft rule. We also made significant progress on the initiative to improve investment fund continuous disclosure, and released a concept paper as part of the Joint Forum of Financial Market Regulators that proposed innovative changes to the point-of-sale disclosure regimes for mutual funds and segregated funds.

3. Improve Access, Protection, Education and Information.

Increased Continuous Disclosure Reviews

In the wake of the U.S. financial reporting scandals, we redeployed staff in the Corporate Finance Branch to ensure that all of the largest 100 TSX-listed companies that are headquartered in Ontario were reviewed in fiscal 2003. The goal was to accelerate the pace of reviews of Ontario's largest and most influential companies because of their importance to our capital markets and their impact on investor confidence. We issued a report outlining best practices identified in field reviews to assist market participants in improving their compliance environment. Through ongoing continuous disclosure reviews, our target is to review each company based in Ontario at least once every four years.

Streamlined and Reduced OSC Fees

Following across-the-board fee reductions totalling more than 20 per cent since 1999, we introduced a new fee model this fiscal year to further reduce overall regulatory costs for market participants. The new fee schedule, which was approved by the Minister of Finance, is simpler to understand, allocates costs more fairly among market participants, and better reflects the cost of the services being provided. Overall costs for market participants are expected to fall significantly as a result.

Launched a Web-Based National Registration Database

In order to harmonize and improve the registration process, Canadian securities regulators launched a web-based registration system that permits dealers and advisers to file most registration forms electronically. Previously, all forms were paper-based, and their content varied by province. Every jurisdiction in Canada except Quebec is participating.

Launched Website for Fair Dealing Model Consultation

We broadened the way we consult with stakeholders on policy initiatives by creating an innovative website that illustrates our proposed Fair Dealing Model. Since its launch in October 2002, www.fairdealingmodel.ca has received more than 10,000 visitors. Over 300 individuals — 20 per cent of them individual investors — submitted comments on the model. We plan to follow up with a detailed Concept Paper in the fall of 2003.

Took Steps to Ensure Effective Investor Education Strategy

We clearly defined the role of the OSC Investor Communications team to distinguish it from that of the Investor *e*-ducation Fund, and to ensure an efficient and effective investor education strategy. The OSC Investor Communications team's focus is on outreach and public awareness activities to seniors, youth and novice investors. The Fund's goals encompass the development of on-line investment tools and resources for adult learners, resources for teachers, and research and sponsorships that support investor education.

Increased Direct Contact with Investors

The OSC Investor Communications team leveraged partnerships with government organizations and community groups to increase our direct contact with Ontario investors and broaden our audience. Notably, we piloted the "Protect Your Money: Schemes, Scams & Flimflams" program to deliver anti-fraud messages to Ontario seniors. Once again OSC staff enthusiastically participated in Investor Education Month 2003 along with regulators and industry groups across North America.

Launched New Online Financial Information Resource

The Investor *e*-ducation Fund launched www.investorED.ca — an online source of objective financial information that hosts Fund resources and investor education content from the OSC and CSA. The Fund also held its annual Teachers Institute in partnership with the Ontario Institute for Studies in Education of the University of Toronto, a continuing education program assisting teachers to use the Fund's Taking Stock Teacher Resources in classrooms.

ENFORCEMENT REVIEW

The OSC's Enforcement branch is responsible for the [redacted] enforcement of Ontario's securities laws. In practice, this means investigating potential breaches on a case-by-case basis, and initiating proceedings in only the most serious cases. Our filtering process allows us to determine, in a consistent and objective manner, which matters to pursue.

ENFORCEMENT REVIEW

The OSC's Enforcement branch is responsible for the fair and effective enforcement of Ontario's securities laws. In practice, this means investigating potential breaches on a case-by-case basis, and initiating proceedings in only the most serious cases. Our filtering process allows us to determine, in a consistent and objective manner, which matters to pursue.

A FOCUSED APPROACH TO ENFORCEMENT

Our Enforcement Branch aims to focus on activities that involve substantial violations of Ontario securities law. We use a filtering approach to ensure that the most serious cases are prosecuted. Staff applies a standard set of risk-based criteria to each case to determine which ones may pose the greatest threat to the integrity of Ontario's capital markets. Last year we published those criteria for the first time. By making our investigative process more transparent, we hope to strengthen the perception of the fairness of our methods, and to illustrate the way we prioritize the files we take on.

Our Case Assessment team conducts the initial review of the leads we obtain from such sources as public complaints, media reports, and other agencies. Our Surveillance team also generates leads through its monitoring of potential trading abuses. Cases that appear to meet our risk-based criteria are typically passed along to the Investigations team for a more thorough review. Finally, our investigators refer the most compelling files to the Litigation team, which determines whether there is a sufficient basis to initiate formal proceedings.

One of our aims is to settle matters without incurring the expense of a full hearing. Last year, the commission approved 36 settlement agreements.

The following table shows the number of files handled last year by each team in the Enforcement branch.

Case Selection Criteria

Following are examples of our risk-based criteria.

- **The number of investors affected and the value of their losses is significant.**
- **The alleged improper activity is ongoing, or investors' assets are at risk.**
- **The activity appears to be pervasive.**
- **Resolution of the case would likely have precedent value for future cases.**
- **Resources required to pursue the case are proportionate to the conduct in question.**
- **The activity has received sufficient public profile or media attention to affect public confidence in the integrity of our capital markets.**

Source: OSC Staff Notice 11-719

Unit	Open as of April 1, 2002	New Files	Total Files
Case assessment	54	161	215
Surveillance	27	71	98
Investigations	43	5	48
Litigation	61	29	90

Company Founders Ordered to Resign

In regards to **Lydia Diamond Exploration of Canada Ltd.**, **Jurgen von Anhalt** and **Emilia von Anhalt**, an OSC disciplinary panel found that the von Anhalts "have not complied with Ontario securities laws and have not acted in the public interest." It was alleged the von Anhalts sold Lydia shares without a license, misused the company funds for personal use and hired a psychic to help find diamonds in Northern Ontario. As a private company, Lydia was limited to having no more than 50 shareholders; however it has approximately 2,600 shareholders.

The Commission ordered that the von Anhalts, subject to specific exceptions, cease trading in securities for 12 years, resign all positions held as Directors or officers of any issuer, be prohibited from becoming or acting as an officer or Director of any issuer for 15 years and be reprimanded. Further they must pay investigation and hearing costs of $200,000. Lydia Diamond had a three-year cease-trading order imposed against it unless it meets certain conditions, and was ordered to pay costs of $25,000. The decision has been appealed.

Former Head Trader Breached Insider Trading Laws

Piergiorgio Donnini, a former head trader at Yorkton Securities Inc., was found by an OSC panel to be "trading on a massive scale while in possession of confidential material information." The Commission found that in early 2000, Mr. Donnini had knowledge of a potential financing for Kasten Chase Applied Research Limited (KCA) that had not been disclosed to the public, and that he traded more than 1.4 million shares of KCA while he had this information; as such, he acted contrary to the public interest. The ruling concluded that some of the trading involved short sales, whereby a seller sells borrowed shares in the expectation of replacing them later at a lower price.

The panel suspended Mr. Donnini's registration under Ontario securities law for 15 years, and ordered him to cease trading for 15 years except for trading in his personal accounts. Additionally, he was prohibited for 15 years from becoming or acting as a director or officer of any issuer that is a registrant. Mr. Donnini was also ordered to reimburse the OSC for approximately $186,000 in investigation and prosecution costs.

On appeal, the Ontario Divisional Court upheld the Commission's finding of liability, but reduced to four years the registration suspension, the cease trade order and the prohibition on serving as an officer or director of a registrant. The Court also instructed the Commission to conduct a hearing into the investigation and hearing costs imposed on Mr. Donnini. Commission staff plan to seek leave to appeal the Court's decision.

Settlement Reached in Collapse of Hedge Fund

The Commission approved a settlement with **Phoenix Research and Trading Corporation** in regards to the collapse of its hedge fund, Phoenix Fixed Income Arbitrage Limited Partnership (PFIA LP) in early 2000. Stephen Duthie, one of the company's senior traders, took an unhedged long-position in $3.3 billion worth of treasury notes, contrary to company guidelines. The trades resulted in a loss of more than $125-million U.S., and the collapse of the investment fund.

The now defunct Toronto firm permanently lost its securities registration, received a reprimand and was ordered to pay the Commission's $50,000 in investigation costs. As part of the settlement, Phoenix admitted it could have avoided the collapse if it had supervised its traders and the operation group sufficiently, maintained accurate books and implemented proper controls and procedures. Two former Phoenix employees, Stephen Duthie and Ronald Mock, former president and CEO of Phoenix, face other allegations before the Commission.

Temporary Cease Trade Order Extended

Mark Edward Valentine, former chairman of Thomson, Kernaghan & Co. had a cease trade order extended. Staff is investigating Mark Valentine's role at Thomson Kernaghan, where it is alleged that he created "a culture of conflict and non-compliance and breached Ontario securities laws in respect of a series of transactions." An OSC panel issued a temporary cease trade order in June 2002 and extended this order in January 2003, finding that he breached the previous cease trade order by buying and selling futures contracts in July 2002.

In addition to the extension of his trading restrictions, Mark Valentine was ordered to close all brokerage accounts not held directly in his name and provide copies of all of his monthly brokerage account statements to the OSC. The investigation into this matter continues.

Improper Pricing of Securities in a Mutual Fund

The Commission approved a settlement with **Mark Bonham and Bonham & Company Inc.** in regards to artificially raising the value of several mutual funds. Mark Bonham, acting as the Portfolio Manager of funds managed by Bonham & Co. and SVC O'Donnell Fund Management Inc. was found to have manually priced certain shares held by three mutual funds: the Strategic Value Fund, The Canadian Equity Fund and the Dividend Fund, resulting in the funds being materially overvalued by approximately $377,652.

This settlement was described by the OSC panel as a "precedent-setting case" that sends a strong message to the Canadian mutual fund industry as well as "highlighting the need to apply a specific and constant methodology when pricing securities held in a mutual fund." Mark Bonham and Bonham & Co. agreed to pay $150,000 for investigation and hearing costs, and $50,000 to be allocated to third parties for purposes that will benefit Ontario investors. Mark Bonham was banned from trading in securities, except on his own account, for three years, and barred from serving as a director or officer of a public company for three years.

Failure to Supervise Branch Employees

The Commission approved a settlement with **BMO Nesbitt Burns Inc.** related to an action in which Nesbitt agreed that it had acted contrary to the public interest and to Ontario securities law by failing to supervise two employees at a branch in the Toronto area in connection with allegations of investment fraud.

BMO Nesbitt Burns Inc. received a reprimand and agreed to pay $45,000 for investigation costs, and $100,000 to be allocated to third parties for purposes that will benefit Ontario investors. Further, Nesbitt was required to identify and implement new policies with respect to internal compliance reviews and non-trading activities in clients' accounts and to report to the OSC within six months of the settlement agreement date to identify the new policies.

Inadequate Disclosure of Conflicts in a Research Report

The Commission approved a settlement agreement with **CIBC World Markets Inc.**, the investment banking arm of Canadian Imperial Bank of Commerce. The Commission des valeurs mobilières du Québec (CVMQ) reached a separate agreement. The Commission panel found that CIBC World Markets failed to make adequate disclosure of its potential conflict of interest in recommending the purchase of shares of Shoppers Drug Mart Corporation in five bullish equities research reports published between December 2001 and February 2002. CIBC World Markets failed to adequately disclose that it had acted as a lead underwriter in Shoppers' initial public offering of shares in November 2001, that it held 7,450,000 shares of Shoppers at the time of the reports, or that Shoppers was indebted to its parent bank throughout this period.

CIBC World Markets was ordered to pay $100,000 to partially offset costs of the joint investigation by staff at both commissions and agreed to submit to a review of its conflict disclosure practices by an independent expert. The Commission stressed the importance of "making required disclosure in type size that is large enough to be easily read by investors."

Advice Offered by Seminar Provider

Sanctions were ordered against **Brian K. Costello**, who was accused of acting as an adviser and traded securities without the required registration, and recommended specific securities without disclosing information regarding his conflict of interest. The evidence revealed that a principal purpose of Costello's seminars was collecting names of participants and distributing marketing material to them. The OSC panel found that "good educational material should be balanced and free from marketing bias. It should not serve as bait to lead the unsuspecting to specific securities or service providers."

Finding that Costello did not disclose conflicts of interest and had acted as an adviser without being registered, the panel reprimanded him and ordered him to pay $300,000 toward the cost of an investigation and hearing. He was barred from giving financial advice about specific, individual investments for five years unless he registers as an adviser. Further, his seminar, newsletter and website material were also reviewed by a Commission-appointed consultant from the start of the hearing to its conclusion. He was cleared of allegations of improper trading. The decision has been appealed.

Directors and Underwriters Sanctioned for Inadequate Disclosure

Hearings for the YBM Magnex case — one of the longest proceedings in the OSC's history — concluded in November, 2002, and the Commission panel issued its decision subsequent to the fiscal year-end. The panel found that YBM's key disclosure documents did not contain full, true and plain disclosure of all material facts, and that YBM failed to disclose a material change in its affairs. In its reasons, the panel stated that the ruling reinforces materiality "as the standard for [disclosure of risks] in securities markets by taking into account the considerations associated with the exercise of judgement and reasonable diligence."

The Commission issued a permanent cease-trade order on trading in any securities of **YBM Magnex International Inc.**, and permanently prohibited two of its officers, **Jacob G. Bogatin** and **Igor Fisherman**, from becoming or acting as a director or officer of any issuer.

A YBM director, **R. Owen Mitchell**, was prohibited from becoming or acting as a director or officer of any reporting issuer for five years, and ordered to pay investigation and hearing costs in the amount of $250,000. Two other directors, **Kenneth E. Davies** and **Harry W. Antes**, received similar three-year prohibitions and cost assessments of $75,000 each.

The co-lead underwriters in a 1997 YBM public offering, **Griffiths McBurney & Partners** and **National Bank Financial Corp** (formerly known as First Marathon Securities Limited), were each ordered to pay investigation and hearings costs in the amount of $400,000. Griffiths McBurney was also ordered to submit to an independent review of its practices and procedures as an underwriter and institute any recommended changes.

Full details of all enforcement actions are available on our website at www.osc.gov.on.ca.

OSC Public Salary Disclosure (Calendar 2002)

Name	Position	Compensation Paid	Taxable Benefits
Alexopoulos, Tula	Special Advisor to the Chair	$127,818.15	$197.61
Antoniou, Noulla	Senior Accountant	$105,235.61	$243.67
Beck, Joan	Senior Legal Counsel	$150,845.52	$458.74
Bertoia, Julie	Senior Accountant	$140,996.71	$229.71
Blumberger, Erez	Legal Counsel	$136,520.88	$562.16
Boardman, Sally	Manager, Human Resources	$108,776.06	$242.65
Bridge, Marrianne	Manager, Compliance	$152,366.60	$311.70
Britton, Matthew	Senior Litigation Counsel	$144,984.41	$253.79
Brown, Michael	Legal Counsel	$111,646.64	$175.87
Brown, David	Chair	$552,000.10	$9,835.12
Bureaud, Jean-Paul	Legal Counsel	$130,040.62	$231.35
Butler, Brian	Manager, Investigations	$179,210.94	$664.08
Byers, Christopher	Legal Counsel	$106,338.67	$179.14
Byrnes, Robert	Deputy Director, Information Technology	$166,918.49	$1,411.63
Carchrae, John	Chief Accountant	$207,060.83	$298.80
Casiero, Vincent	Investigation Counsel	$120,692.05	$204.62
Chaukos, Pat	Senior Accountant/ Legal Counsel	$136,745.30	$611.94
Chisholm, Yvonne	Litigation Counsel	$134,149.76	$288.21
Cho, Peter	Senior Forensic Accountant	$139,917.50	$684.70
Chung, YuMee	Legal Counsel	$105,101.42	$170.76
Clarkin, Brian	Senior Forensic Accountant	$146,414.36	$230.16
Collins, Stephanie	Forensic Accountant	$103,301.76	$167.49
Corbett, Hugh	Litigation Counsel	$117,404.64	$327.32
Cottrell, John	Senior Forensic Accountant	$114,605.96	$643.74
Cowdery, Rebecca	Manager, Investment Funds Regulatory Reform	$187,999.18	$294.12
Daniels, Kathryn	Litigation Counsel	$145,186.00	$397.52
Dasil, Merilyn	Senior Legal Counsel	$142,141.64	$218.67
Davis, Robert	Commissioner	$105,800.00	$0.00
Day, Robert	Manager, Business Planning & Reporting	$132,504.95	$212.90
De Lint, Dirk	Legal Counsel	$133,875.94	$286.06
De Verteuil, Michael	Senior Forensic Accountant	$133,202.15	$224.53
Dempsey, Paul	Manager, Investment Funds	$165,618.62	$273.31
Di Lieto, Rossana	Senior Legal Counsel	$131,937.65	$233.87
Dublin, Julia	Senior Legal Counsel	$165,417.76	$679.82
Dundas, Linda	Senior Derivatives Specialist	$131,248.02	$611.52
Evans, Katharine	Legal Counsel	$102,939.69	$376.05
Fallone, Joanna	Manager, Case Assessment	$162,160.36	$272.79
Fung, Carlin	Senior Accountant	$104,368.35	$175.89
Fydell, Barbara	Legal Counsel	$115,031.69	$190.75
Gerhart, Marsha	Senior Legal Counsel	$152,178.13	$558.82
Gilkes, David	Manager, Registrant Regulation	$120,820.97	$221.30
Goldberg, Rhonda	Legal Counsel	$108,747.56	$210.64
Gorman, Kelly	Senior Accountant	$109,222.98	$204.31
Greenglass, Susan	Senior Legal Counsel	$167,219.93	$258.58
Gunn, George	Manager, Surveillance	$135,928.65	$1,304.89
Hayward, Paul	Legal Counsel	$105,316.75	$178.24
Hubley, Michael	Assistant Manager, Investigations	$121,769.32	$1,086.22
Hughes, John	Manager, Continuous Disclosure	$161,563.35	$263.55
Jepson, Christopher	Legal Counsel	$118,391.30	$227.58
Jiwani, Nurez	Director, Regulatory Coordination	$133,251.49	$0.00
Kanji, Naizam	Legal Counsel	$112,380.32	$185.62
Kennedy, Melissa	Manager, Litigation	$165,057.68	$359.33
Kohl, Robert	Senior Legal Counsel	$162,242.94	$265.85
Koor, Elle	Manager, NRD Project	$158,336.33	$240.34
Leung, Antoinette	Senior Accountant	$130,399.46	$208.33
Lo, Yvonne	Senior Forensic Accountant	$116,621.24	$193.56
MacCready, Charles	Senior Legal Counsel	$125,302.37	$277.42
Macfarlane, Charles	Executive Director	$383,305.12	$7,791.56
Mainville, Chantal	Legal Counsel	$112,501.82	$1,158.23
Manarin, Karen	Litigation Counsel	$130,277.43	$234.45
Martin Gorelle, Krista	Senior Legal Counsel	$155,757.79	$255.24
Martin Sidey, Donna	Legal Counsel	$160,937.52	$309.66
McCallum, Susan	Senior Legal Counsel	$126,790.12	$213.39
McCombe, Deborah	Geologist	$130,577.19	$557.91
McCurdy, David	Trading Systems Specialist	$120,096.09	$229.26
McGregor, Mark	Manager, Technology Services	$107,649.71	$706.86
McInnis, Cameron	Senior Accountant	$124,282.08	$568.66
McKall, Darren	Legal Counsel	$113,667.27	$186.99
McManus, Mark	Manager, Inquiries & Contact Centre	$108,241.67	$1,477.28
Moore, Terry	Legal Counsel	$134,315.14	$431.54
Moore, Paul	Vice Chair	$376,549.82	$7,803.18
Mulima, Mark	Legal Counsel	$101,914.97	$0.00
Nania, Viraf	Senior Accountant	$113,802.66	$263.48
Naster, Jay	Special Counsel	$261,507.24	$282.60
Oseni, Sarah	Legal Counsel	$125,651.49	$288.16
Pare, Maxime	Senior Legal Counsel	$154,378.74	$655.68
Paul, Margo	Manager, Finance Team 1	$183,607.30	$287.94
Pavalow, Randee	Director, Capital Markets	$200,637.46	$382.39
Petlock, Cindy	Manager, Market Regulation	$150,469.26	$245.90
Petroff, Thomas	Senior Market Analyst	$105,259.20	$180.01
Pilipavicius, Rima	Senior Forensic Accountant	$126,882.32	$222.71
Pilkey, Scott	Senior Investigation Counsel	$159,058.12	$519.70
Powley, Randall	Chief Economist	$155,320.86	$257.10
Ramsay, Anne	Senior Accountant	$141,068.60	$218.10
Sanjoto, Winnie	Legal Counsel	$101,306.76	$159.17
Sankar, Levi	Investigation Counsel	$128,710.63	$226.02
Shay, Ralph	Director, Take Over Bids	$175,971.76	$290.92
Smith, Ian	Litigation Counsel	$165,932.16	$260.35
Soden, Kathryn	Director, Corporate Finance	$135,047.69	$486.80
Spencer, Mary Ann	Director, Corporate Services	$198,442.98	$312.26
Stern, Tracey	Senior Legal Counsel	$142,329.83	$225.56
Stevenson, John	Secretary to the Commission	$167,365.83	$275.16
Stow, Nancy	Manager, IEF Research & Development Support Services	$107,884.43	$182.82
Superina, Johanna	Senior Litigation Counsel	$171,596.61	$265.91
Switzer, Frank	Director, Communications	$157,823.56	$291.67
Tedesco, Felicia	Assistant Manager, Compliance	$144,356.21	$653.45
Tillie, Marcel	Senior Accountant	$141,477.65	$680.33
Toledano, Lori	Forensic Accountant	$101,252.71	$364.70
Too, Byron	Manager, Application Services	$112,236.24	$228.56
Tsatsos, Irene	Senior Accountant	$121,424.25	$201.40
Vranic, Iva	Manager, Finance Team 2	$171,498.98	$279.31
Watson, Michael	Director, Enforcement	$229,413.17	$380.22
Welsh, Doug	Legal Counsel	$110,764.92	$188.37
Wetston, Howard	Vice Chair	$399,549.82	$7,803.18
Whiler, Rick	Senior Accountant	$139,551.40	$235.74
Wolburgh Jenah, Susan	General Counsel & Director International Affairs	$214,813.60	$340.58

The total remuneration of the Commission's Board in calendar 2002 (excluding the Board members listed above) was $465,856.67.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements present the results of the Ontario Securities Commission for the year ended March 31, 2003 with March 31, 2002 comparatives and accompanying notes. The following comments provide an analysis of the factors which affected the Commission's operations during 2003 as well as the factors that reasonably may be expected to impact on future operations and results. The document should be read in conjunction with the financial statements.

Analysis of Operating Results

Excess of Revenue over Expenditures

Excess of revenue over expenditures for the twelve months ended March 31, 2003 was $14.6 million (2002 — $30.1 million). The general operating surplus as at March 31, 2003 was $7.0 million (2002 — $9.4 million).

In accordance with the provisions of the *Securities Act*, the Minister of Finance has requested the Commission to remit funds that are surplus to its operating requirements to the Province. During the twelve month period, the amount distributable from the Commission to the Province was $16.9 million (2002 — $20.0 million).

Actual Results Compared to Budget

Revenue is over budget because a planned 10% fee decrease was not implemented. Expense overspending occurred due to a one time, unbudgeted payment of $2.0 million to CDS Inc. which related to cost overruns on implementation of the National Registration Database system. Capital expenditures are over budget because renovation related costs were $665k higher than expected and were only partially offset by underspending on information technology capital which was $204K under plan.

	Actual ($000's)	Budget ($000's)	Variance ($000's)	Variance %
Revenues	70,473	63,296	7,177	11.3
Expenses	55,874	53,807	(2,067)	(3.8)
Capital	2,232	1,755	(477)	(27.2)

Revenue

In 2003, $70.5 million was collected under the *Securities Act* and the *Commodity Futures Act*. Total revenue for 2002 was $79.9 million. This represents a decrease of $9.4 million or 11.8%.

	Total Revenue	2003	2002	Change	Change
	%		$ 000's		%
Prospectus filings	50.9	35,854	43,540	(7,686)	(17.7)
Registration	37.9	26,725	27,617	(892)	(3.2)
Disclosure filings	7.2	5,106	6,100	(994)	(16.3)
Applications for exemptive relief	1.9	1,311	971	340	35.0
Investment income	2.0	1,375	1,552	(177)	(11.4)
Miscellaneous	0.1	102	114	(12)	(10.5)
Total	**100.0**	**70,473**	**79,894**	**(9,421)**	**(11.8)**

The Commission has five primary sources of revenue:

Prospectus filings, comprising fees for preliminary and final filings and mutual fund renewals, were $35.9 million and accounted for 50.9% (2002 — 54.5%) of total revenues. Prospectus filings fees are strongly correlated to the overall level of capital market activity. Prospectus revenue fell by $7.7 million due to a decline in market financing activity by issuers as well as lower mutual fund fee revenues. These fees represent the most variable component of the Commission's revenue base.

Registrations, comprising fees for registration of dealers, advisors and salespersons, were $26.7 million and accounted for 37.9% (2002 — 34.6%) of total revenues. Registration fees decreased by $0.9 million or 3.2% reflecting timing issues related to the introduction of a uniform registration date.

Disclosure filings, comprising fees related to filings by reporting issuers, were $5.1 million and accounted for 7.2% (2002 — 7.6%) of total revenues. Lower takeover bid activity was the cause of this 16.3% revenue decrease.

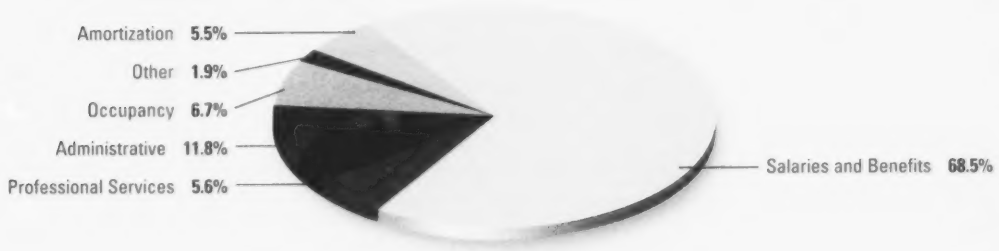
Applications for Exemptive Relief, comprising fees from issuers seeking exemptions or modifications to filing requirements, increased by 35.0% to $1.3 million and represented approximately 1.9% (2002 — 1.2%) of total revenues. This increase can be explained by one significant filing ($580K) received during the year.

Investment Income is comprised mainly of interest earned on cash balances at a rate of 1.75% below the prime rate or 0.25% below bankers' acceptance, as well as interest earned on the reserve which is invested in short and mid term instruments through the Ontario Financing Authority. Investment income generated by deposits and other investments was $1.4 million and accounted for 2.0% (2002 — 2.0%) of total revenues. The decrease in investment income can be traced to lower interest rates.

Expenses

Total expenses for 2003 increased 12.3% to $55.9 million (2002 — $49.7 million) against a budget of $53.9 million.

Expenses	2003	2002	Change	Change
%		$ 000's		%
Salaries and benefits	68.5	38,278	34,032	4,246	12.5
Administrative	11.8	6,617	4,873	1,744	35.8
Occupancy	6.7	3,727	3,185	542	17.0
Professional services	5.6	3,123	3,345	(222)	(6.6)
Amortization	5.5	3,069	3,278	(209)	(6.4)
Other	1.9	1,060	1,036	24	2.4
Total	**100.0**	**55,874**	**49,749**	**6,125**	**12.3**



The key contributors to the expenditure increase were as follows:

Salaries and Benefits costs were $38.3 million (2002 — $34.0 million) and accounted for 68.5% of the Commission's total expenditures. Salaries and wages costs increased by 12.5% in 2003. A number of factors contributed to this increase including the full year cost impact of prior year hiring, an increase in staffing levels, higher benefit and pension costs and one-time severance costs. The OSC had 356 permanent employees on board (3.8% positions vacant) at the end of the year compared to 346 (4.7% positions vacant) at the end of the previous year.

Administrative costs accounted for approximately 11.8% (2002 — 9.8%) of the Commission's total expenditures. Expenditures on administrative costs increased by 35.8% to $6.6 million (2002 — $4.9 million). Significantly higher expenditures were incurred on Commission related expenses due to greater levels of hearing activity. Administrative costs also include a direct cash payment to CDS Inc. of $2.0 million. This amount represents the OSC's portion of the $4.25 million payment as agreed to between CDS, the OSC, the Alberta Securities Commission, the British Columbia Securities Commission and the Investment Dealers Association.

Professional Services costs were $3.1 million and accounted for approximately 5.6% (2002 — 6.7%) of the Commission's total expenditures. Expenditures in this area decreased by 7% over the previous year. This continues a trend toward reduced reliance on external resources as internal expertise has been hired.

Approximately 19.8% of the costs were incurred for enforcement-related matters. The Commission expects to continue to have an ongoing need to use specialized external legal and forensic accounting resources for enforcement activities. The OSC recovers a portion of its enforcement costs through settlements and orders of the Commission. During 2003 $855K was collected (2002 — $419K) which was applied to offset enforcement related expenditures.

The OSC is a member of the Canadian Securities Administrators (CSA), which is a forum composed of provincial securities regulators. All CSA projects, including the development of harmonized securities policies and rules and shared CSA information systems, are co-ordinated through a centralized project office. The operating costs of the project office are borne on a formula basis by CSA members. In 2003 the OSC contributed $171K toward the cost of the project office.

Total CSA spending on projects was $1.9 million in 2003 (2002 — $2.1 million) of which the OSC contributed $851K (2002 — $923K). The OSC contribution included $553K toward the professional services costs related to the establishment of the National Registration Database. Other significant CSA initiatives to which the OSC provided funding included Continuous Disclosure Harmonization ($41K), work related to various Joint Forum projects ($35K) and several Investor Education initiatives ($29K). The OSC contributed $10K in CSA cost sharing and a further $309K directly toward the completion of a national insider trade reporting system (SEDI).

Amortization costs account for approximately 5.5% (2002 — 6.6%) of the Commission's total expenditures. Amortization expenses decreased to $3.1 million (2002 — $3.3 million).

Occupancy costs accounted for approximately 6.7% (2002 — 6.4%) of the Commission's total expenditures. Expenditures on occupancy increased 17.0% to $3.7 million (2002 — $3.2 million) due to the acquisition and renovation of additional space.

Other costs, which represent travel and related expenses, were unchanged at $1.1 million (2002 — $1.0 million) and accounted for 1.9% (2002 — 2.1%) of the Commission's total expenditures.

Liquidity

The Commission requires liquidity to finance its operations and capital purchases. As at March 31, 2003 the Commission held cash in the amount of $22.7 million, current assets of $25.2 million and current liabilities of $24.3 million for a current ratio of 1.0:1 (2002 — 1.2:1).

Reserve

In 2003–2004 the OSC will be operating with a new OSC fee structure. The fee structure has been designed to reduce the potential for significant fluctuations in revenues arising from market volatility. Until the new fee structure has been in place for a period of time and the OSC has had an opportunity to verify the effectiveness of its design, revenue generation under the new fee regime will remain a source of risk for the OSC. The OSC is positioned to manage this uncertainty as the Commission has a reserve of $20 million which serves as an operating contingency for revenue shortfalls or unexpected expenditures. The OSC has an additional reserve of $12 0 million which may only be used to offset any costs incurred related to the proposed merger of the OSC with the Financial Services Commission of Ontario.

Income from the investments increased 5.5% to $1.0 million (2002 — 948K) reflecting the increased value of funds invested. The rate of return on investments is low as the funds are invested with the Province of Ontario and the prime investment consideration for the reserve is the protection of capital and the appropriate liquidity to meet unanticipated cash flow needs. Income generated by the reserve is taken into general operations.

Capital Transactions

Capital expenditures of $2.2 million (2002 — $1.4 million) were made during 2003. The majority of these expenditures (60.8%) were made in information technology ($1.3 million) and included the purchase of equipment for increased staff complement and an upgrade of our computer network. The balance was spent on new space acquired to accommodate additional staff.

Liabilities

Included in the accounts payables and accrued liabilities is $1.7 million (2002 — $1.1 million) relating to a provision for refunds of prospectus revenues. The amount of revenue to be realized from prospectus filing fees is uncertain. Fees are paid based on estimated prospectus proceeds and refunds are issued as required based on actual proceeds. As a result, this revenue is recognized net of a provision for expected refunds. At the beginning of each fiscal year the Commission establishes a percentage for the provision for expected refunds based on the experience of the previous three years. In 2003 the Commission refunded $9.1 million of which $1.8 million related to prior year fees and $7.3 million related to 2003 fees.

The accrued benefit liability represents future obligations relating to supplementary pension plans established for certain full time members. The unfunded supplemental pension plans had an accrued benefit obligation of $545K (2002 — $606K) at March 31, 2003. The OSC's related expense for the year was $282K (2002 — $295K) and is included in salaries and benefits.

In support of the development of the Mutual Funds Dealers Association (MFDA), the Commission has guaranteed 61% of a total $12 million line of credit as assistance during start-up of MFDA operations. The Alberta Securities Commission and the British Columbia Securities Commission have also guaranteed a specific percentage of the total indebtedness. As at March 31, 2003 the MFDA had $3.0 million outstanding (2002 — $8.9 million) on this line of credit. Current OSC exposure to the loan is $1.8 million. As the MFDA has commenced operations and is generating revenues through the registration of mutual fund dealers, the OSC does not anticipate being called upon to meet its share of this guarantee.

The OSC, together with the Alberta Securities Commission and the British Columbia Securities Commission and the Investment Dealers Association is contingently liable for a $4.25 million assured payment in respect of the development of the National Registration Database (NRD). The OSC's share of this contingency is $1.96 million. It is expected that the assured payment will be funded by users of NRD and no provision has been made to the financial statements for any potential cost to the OSC.

Designated Settlements

In August 2000, the Commission established a not-for-profit corporation, the Investor Education Fund, to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor education. The Investor Education Fund is governed by a Board of Directors which is responsible for developing criteria for and approving the disbursement of funds.

During 2003, a total of $150K (2002 — $4.1 million) in designated settlements arising from enforcement proceedings was collected. These funds are receivable by the Commission to be allocated to or for the benefit of third parties as the Commission may determine. The Commission directed that the $150K collected as designated settlements in 2003 be provided to the Investor Education Fund.

Reliance on CDS Inc.

CDS Inc. operates a number of major systems on behalf of the CSA and the OSC. Approximately 58% (2002 — 58%) of our fee revenue is collected through the SEDAR system. CDS recovers the costs to operate the systems by charging filers user fees in addition to the fees collected for the OSC and other members of the CSA. The CSA is in the process of renewing the operating agreement for SEDAR which expired in December 2002.

CDS developed a national insider reporting system (SEDI) for the CSA which was launched in January 2002. SEDI operations were suspended on February 1, 2002 because technical issues resulted in unacceptable system performance levels. CDS is completing repairs to the system at their cost. It is not expected that CDS's efforts to repair the system will expose the OSC to any liability. The SEDI system is expected to be re-launched in May 2003.

The NRD system was launched on March 31, 2003. The current operating agreement for the NRD will run until March 2009.

Should CDS become unwilling or unable to operate one or all of these systems, the OSC and the CSA would need to explore options to continue the operation of these systems.

Risk Management Initiatives

The OSC has substantially completed a Business Continuity Plan (BCP) which is designed to allow the continuation of critical regulatory services should the OSC face a significant disruption to its operations. Individual business continuity plans have been developed for each priority business function. Each plan includes documented recovery procedures including manual workarounds and mitigation strategies. Additional work on establishment of offsite recovery services and facilities is expected to be completed early in 2003/2004.

The OSC also completed a risk assessment process to identify the top risks which could impact the achievement of its business objectives. Following an analysis of these risks a three-year internal audit plan was developed. The first phase of the plan will be carried out during 2003/2004 by internal auditors contracted by the OSC.

Memorandum of Understanding

In accordance with the provisions of the *Securities Act*, the Commission is required to complete a Memorandum of Understanding with the Minister of Finance to outline the ongoing roles, responsibilities and accountability relationships between the two parties. A Memorandum of Understanding between the OSC and the Minister of Finance was signed in May 2003.

2003/2004 Outlook

In order to streamline and simplify the fee structure and meet its commitment to align total fees with the cost of regulation, the OSC finalized a rule which established a new fee structure effective March 31, 2003. The fee rule is designed to accomplish three primary purposes: to reduce the overall fees charged to market participants; to create a clear and streamlined fee structure; and to adopt fees that accurately reflect the Commission's costs of operations. The new fee schedule is comprised primarily of two types of fees. Participation fees, which are estimated to generate about 70% of total revenues, are intended to represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees, which are estimated to generate less than 25% of total revenues, are intended to recover the direct cost of OSC staff resources to take a specific action or provide a specific service at the request of a market participant. The remaining sources of revenue are late filing fees and investment income which are expected to generate about 5% of total revenues.

The fee rule is expected to generate net positive benefits in two areas, fairness and efficiency, both for the industry and the OSC. The changing nature of the securities industry, from a business based on primary offerings to one where 95% of the activity takes place in the secondary markets, had not been reflected in the fee structure. With the shift to monitoring continuous disclosure and trading, fees based primarily on filings no longer mirror the cost of regulation. The fee rule ties the OSC's cost of regulation to the revenues from fees. The shift to fees based primarily on participation in the capital markets represents a considerable improvement in fairness.

Administration costs associated with paying fees should drop significantly for most stakeholders due to an expected reduction in the total number of fee transactions. With the fee calculation based on standard disclosure items, the set-up and ongoing costs of calculation should be minor. With improvements in both fairness and efficiency, only marginally offset by very modest set-up costs, the fee rule is expected to deliver substantial net benefits to the capital market's intermediaries and to the OSC.

The Commission revenue forecast for 2004 is $65.0 million, which is 7.8% lower than the $70.5 million collected in 2003. The forecast does not anticipate a material change in the level of market activity. The OSC revenue forecast for 2004 is made less predictable by uncertainties arising from the newness of the fee structure. The potential for material market fluctuations due to world events could have a negative impact on OSC revenues. The new OSC fee structure has been designed to reduce the potential for significant fluctuations in revenues arising from market volatility. Until the new fee structure has been in place for a period of time and the OSC has had an opportunity to verify the effectiveness of its design, revenue generation under the new fee regime will remain a source of risk for the OSC.

Fee revenues collected on behalf of the OSC through systems operated by CDS Inc., are expected to increase substantially to more than 90% of total OSC revenues (2003 — 58%) due to the full year operation of the NRD.

The Commission has budgeted operating expenditures of $57.8 million for 2004 (2003 — $53.8 million). The budget increase relates primarily to salaries and benefits which are projected to rise by 8.6% to $40.6 million (2003 — $37.4 million). Key contributors to this expenditure increase include the annualized cost impact of hiring which occurred in 2003 as well as higher projected benefit rates. The budget includes a 1.7% increase in approved staffing to 379. The OSC benefited in 2003 from a temporary reduction in required pension contributions. The contribution rate was restored to regular levels December 2002. This change resulted in an additional 4% salaries and benefits cost.

The Commission has budgeted $3.2 million (2003 — $3.4 million) for professional services costs for 2004. The budget reflects no change from 2003 expenditures. Significant professional services costs are budgeted for litigation and investigation services ($420K), development of a continuous disclosure risk assessment database ($160K) and work related to the Uniform Securities Law project.

Occupancy expenses are projected to increase by 9.1% to $4.1 million in 2004. These increases reflect the costs for the additional space which the Commission has leased to accommodate its increased staff complement as well as higher lease-related operating costs. Amortization costs are projected to increase to $3.3 million in 2004.

The 2004 capital budget is $1.5 million, 31.5% lower than the $2.2 million spent in 2003. Approximately 88.8% of the planned capital expenditures are information technology-related reflecting the Commission's commitment to maintaining state of the art information technology capabilities.

The 2004 OSC budget does not include costs for the work that will be required if legislation is passed enabling a merger of the OSC and the Financial Services Commission of Ontario. Legislation is required in order to create the proposed new organization and specify its regulatory responsibilities and powers. The goal of the proposed merger will be to provide more integrated regulation of capital markets and financial services sectors.

"The members of the Board of Directors come from diverse backgrounds and bring unique perspectives to our deliberations and discussions. Supported by the strong leadership provided by the Chair, we are highly effective at addressing areas that are of most concern to the investing public and the capital markets."

Robert W. Davis, FCA
Commissioner

MANAGEMENT'S RESPONSIBILITY AND AUDITOR'S REPORT

Management's Responsibility

Management is responsible for the integrity of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Ontario Securities Commission is committed to full and open disclosure of its operations and maintains a system of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. The preparation of financial statements involves the use of estimates based on management's judgement on transactions which will conclude in future periods.

The Board of Directors ensures that management fulfills its responsibility for financial information and internal control. The financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The Provincial Auditor's Report, which follows, outlines the scope of the Auditor's examination and opinion.

David A. Brown, Q.C.
Chair and Chief Executive Officer

May 7, 2003

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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Auditor's Report

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2003 and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 7, 2003

Erik Peters, FCA
Provincial Auditor

Balance Sheet

As at March 31, 2003

	2003	2002
ASSETS		
CURRENT		
Cash	$ 22,704,342	$ 14,854,685
Accounts receivable	2,139,605	1,004,234
Prepaid expenses	401,421	422,252
	25,245,368	16,281,171
DESIGNATED SETTLEMENTS (Note 8)	474	130,879
RESERVE FUND ASSETS (Note 3)	32,000,000	32,000,000
CAPITAL ASSETS (Note 5)	7,039,570	7,876,910
	$ 64,285,412	$ 56,288,960
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 9,854,764	$ 8,255,930
Due to Province of Ontario (Note 10(a))	14,480,975	5,897,948
	24,335,739	14,153,878
NON-CURRENT		
Other long term liabilities (Note 7(b))	813,131	530,795
	25,148,870	14,684,673
DESIGNATED SETTLEMENTS (Note 8)	474	130,879
SURPLUS		
OPERATING		
General	7,037,824	9,375,164
Reserve (Note 3)	32,000,000	32,000,000
	39,037,824	41,375,164
CONTRIBUTED	98,244	98,244
	39,136,068	41,473,408
	$ 64,285,412	$ 56,288,960

Investor Education Fund (Note 9)

Commitments and Contingencies (Note 4)

See accompanying notes to Financial Statements.

On behalf of the Commission

David A. Brown, Q.C.
Chair

Robert W. Davis, FCA
Commissioner

Statement of Operations and Operating Surplus

For the year ended March 31, 2003

	2003	2002
REVENUE		
FEES		
Prospectus filings	$ 35,853,829	$ 43,539,952
Registration	26,724,635	27,617,369
Disclosure filings	5,105,622	6,099,801
Applications for exemptive relief	1,311,277	971,482
Investment income	1,375,337	1,551,722
Miscellaneous	102,208	113,976
	70,472,908	79,894,302
EXPENSES		
Salaries and benefits (Note 7)	38,278,354	34,032,191
Administrative	6,617,364	4,873,075
Occupancy (Note 6)	3,726,817	3,185,354
Professional services (Note 2(b))	3,122,824	3,345,009
Amortization	3,069,103	3,277,968
Other	1,059,811	1,035,442
	55,874,273	49,749,039
EXCESS OF REVENUE OVER EXPENSES	14,598,635	30,145,263
OPERATING SURPLUS, BEGINNING OF PERIOD	41,375,164	31,260,166
LESS: Distributions to Province of Ontario (Note 10(a))	16,935,975	20,030,265
OPERATING SURPLUS, END OF PERIOD	$ 39,037,824	$ 41,375,164
REPRESENTED BY:		
General	$ 7,037,824	$ 9,375,164
Reserve	32,000,000	32,000,000
	$ 39,037,824	$ 41,375,164

See accompanying notes to Financial Statements.

Statement of Cash Flows

For the year ended March 31, 2003

	2003	2002
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	$ 14,598,635	$ 30,145,263
Adjustments for amortization	3,069,103	3,277,968
	17,667,738	33,423,231
CHANGES IN NON-CASH WORKING CAPITAL:		
Accounts receivable	(1,135,371)	523,864
Prepaid expenses	20,831	(128,471)
Due to Province of Ontario	8,583,027	(908,328)
Accounts payable and accrued liabilities	1,598,834	(2,537,204)
Other long term liabilities	282,336	294,541
	9,349,657	(2,755,598)
	27,017,395	30,667,633
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to Province of Ontario	(16,935,975)	(20,030,265)
Obligation under capital leases	–	(28,629)
	(16,935,975)	(20,058,894)
CASH FLOWS FROM INVESTING ACTIVITIES		
Reserve fund assets	–	(12,000,000)
Purchase of capital assets	(2,231,763)	(1,394,027)
	(2,231,763)	(13,394,027)
NET INCREASE (DECREASE) IN CASH POSITION	7,849,657	(2,785,288)
CASH POSITION, BEGINNING OF PERIOD	14,854,685	17,639,973
CASH POSITION, END OF PERIOD	$ 22,704,342	$ 14,854,685

See accompanying notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2003

1. Nature of the Corporation

Effective November 1, 1997, amendments to the *Securities Act* continued the Ontario Securities Commission (the "Commission") as a corporation without share capital. The Commission functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition. The estimated useful lives of the assets are as follows:

Office furniture and equipment	5 to 10 years
Computer hardware and related applications	2 years
Computer equipment under capital leases	2 years
Leasehold improvements	over term of lease

b) Revenue

Fees are recognized when earned which is normally upon receipt. The amount of revenue to be realized from prospectus filing fees is uncertain. Fees are paid based on estimated prospectus proceeds and refunds are issued, as required, based on actual proceeds in Ontario. As a result, revenue from prospectus filings is recognized net of a provision for expected refunds. At the beginning of each fiscal year the Commission establishes a percentage for the provision for expected refunds based on the experience of the previous three years. The provision is adjusted at year end. Disclosure filing fees are recognized upon receipt of filing.

Recovery of costs of investigations is netted against professional services upon date of decision unless management determines there is no reasonable assurance as to ultimate collection, in which case recovery is recognized when cash is received.

c) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

d) Employee Benefit Plan

The Commission provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multiemployer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the Commission has insufficient information to apply defined benefit plan accounting to this pension plan.

The Commission also maintains supplementary unfunded pension plans for certain full-time members. The Commission accrues its obligations and the related costs under these supplemental unfunded pension plans. The transitional obligation is being amortized over the average remaining service period of active members expected to receive benefits under these plans. For purposes of valuation, the actuarial liability and the current service cost is determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

Post-retirement non-pension benefits are not included in the Statement of Operations and Operating Surplus as described in Note 10(c).

3. Reserve

As part of the approval of its self-funded status, the Commission was allowed to establish a $20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures. The accumulated funds, at March 31, 2003, have been invested in short-term and mid-term instruments with the Ontario Financing Authority.

The Commission received approval from the Ministry of Finance to retain $12.0 million, which may only be used toward implementation costs of the proposed merger with the Financial Services Commission of Ontario as described in Note 12, and are subject to appropriate terms and conditions agreed with the Ministry of Finance, including:

i) The monies will be paid to the Consolidated Revenue Fund, in part or in full, if not required to fund the costs of the merger; and

ii) While retained by the Commission, the monies will be invested with the Ontario Financing Authority.

Investments are carried at cost, which approximates market value. The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments are credited to the operations of the Commission.

4. Commitments and Contingencies

a) The Commission has guaranteed 61% of a total $12.0 million line of credit from a Canadian bank for the Mutual Fund Dealers Association of Canada (MFDA). The guarantee was signed March 19, 1999 and can be terminated by the Commission at any time. The Alberta Securities Commission and the British Columbia Securities Commission have also guaranteed a specified percentage of the total indebtedness. The MFDA has signed an agreement which requires it to use the funds only in accordance with the budget and business plan as approved by each of the Commissions, and also commits the MFDA to repay its loan by the end of the seventh year. As at March 31, 2003, the MFDA has drawn $2,963,000 (2002 — $8,913,000) on this line of credit. Interest is charged at prime plus 0.50% per annum.

b) The Commission is involved in various legal actions arising out of the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.

c) The National Registration Database (NRD) was launched on March 31, 2003. The Commission, together with the Alberta Securities Commission, the British Columbia Securities Commission, and the Investment Dealers Association is contingently liable for a $4.25 million assured payment in respect of the development of NRD. The Commission's share of this contigency is $1,962,650. It is expected that the assured payment will be funded by users of NRD and no provision has been made in the financial statements for any potential cost to the Commission.

5. Capital Assets

	Cost	Accumulated Amortization	2003 Net Book Value	2002 Net Book Value
Office furniture	$ 2,813,494	$ 1,309,818	$ 1,503,676	$ 1,702,388
Office equipment	278,858	127,832	151,026	203,070
Computer hardware and related applications	8,378,742	6,140,304	2,238,438	2,351,840
Computer equipment under capital leases	831,725	831,725	–	–
Leasehold improvements	5,782,313	2,635,883	3,146,430	3,619,612
	$ 18,085,132	$ 11,045,562	$ 7,039,570	$ 7,876,910

6. Lease Obligations

Operating

The Commission is committed to operating lease payments for the next 5 years as follows:

2004	$ 3,748,914
2005	$ 3,644,601
2006	$ 1,573,737
2007	$ 82,504
2008	$ 51,205

7. Pension Plans

a) The Commission's contribution to the Public Service Pension Plan for the year ended March 31, 2003 was $1,346,895 (2002 — $900,885) and is included in salaries and benefits.

b) The unfunded supplemental pension plans had an accrued benefit obligation of $544,565 at March 31, 2003 (2002 — $606,181). The Commission's related expense for the year was $282,336 (2002 — $294,541) and is included in salaries and benefits. No benefits were paid during the year (2002 — $0). The average remaining service period of the active employees covered by these plans ranges from .92 to 3.85 years (2001 — 1.92 to 4.85 years). The significant actuarial assumptions adopted at March 31, 2003 include a discount rate of 6.5% (2002 — 6.75%) and a rate of compensation increase of 0.0% (2002 — 0.0%).

8. Designated Settlements

The Commission has reached a number of settlement agreements arising from enforcement proceedings where monies from these settlements are received or receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine. The accumulated funds are held in a segregated bank account. As at March 31, 2003, the accumulated balance is determined as follows:

	2003	2002
Opening balance	$ 130,879	$1,544,975
Settlements	150,000	4,021,991
Interest	3,474	40,888
Payments		
Investor Education Fund — prior period	(130,879)	(1,544,975)
Investor Education Fund — current period	(153,000)	(3,932,000)
Investor Education Fund — Total	(283,879)	(5,476,975)
Closing Balance	$474	$130,879
REPRESENTED BY:		
Cash	$101	$498
Receivables	373	130,381
	$474	$130,879

The balance of $474 (2002 — $130,879) is due to the Investor Education Fund.

9. Investor Education Fund

a) The Investor Education Fund (the Fund) was incorporated by letters patent of Ontario dated August 3, 2000 as a non-profit corporation without share capital. The Fund is independently managed by its Board of Directors to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor education. The Commission oversees the Fund as the sole voting member. The Fund is exempt from income taxes.

The Fund has not been consolidated in the Commission's financial statements because the Commission will neither obtain future economic benefits from the Fund, nor incur related risks. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2003 and for the year ended March 31, 2003 are as follows:

Investor Education Fund

	2003	2002
Financial Position		
Total assets	$7,434,633	$8,365,439
Total liabilities	$166,285	$192,120
Total net assets	7,268,348	8,173,319
	$7,434,633	$8,365,439
Results of Operations		
Total contributions and interest income	$369,047	$4,188,023
Total expenses	1,274,018	471,423
Excess (deficiency) of revenue over expenses	($904,971)	$3,716,600
Cash flows		
Cash flows from operating activities		
Cash receipts from the Ontario Securities Commission	$283,878	$5,476,975
Cash receipts from third parties	8,000	–
Investment income received	196,439	118,371
Cash paid for initiatives and expenses	(1,299,852)	(368,341)
Net increase (decrease) in cash position	(811,535)	5,227,005
Cash position, beginning of period	8,227,005	3,000,000
Cash position, end of period	$7,415,470	$8,227,005

b) In the normal course of operations, the Commission entered into transactions with the Fund as follows:

i) The Board of the Commission authorized a transfer of $153,474 (2002 — $4,062,879) of the Commission's Designated Settlements to the Fund. As at March 31, 2003, $474 (2002 — $130,879) remained to be paid.

ii) The Commission has a Management Services agreement with the Fund for the provision of administrative and management services, at cost.

For the period ended March 31, 2003, the Commission incurred costs totalling $310,923 (2002 — $181,776) for services related to the Fund. The total cost of these services has been charged back to the Fund and, of this amount, $116,288 is owing to the Commission as of March 31, 2003 (2002 — $141,257).

10. Transactions With Province of Ontario

In the course of normal operations, the Commission entered into transactions with the Province of Ontario as follows:

a) The *Securities Act* states that when ordered to do so by the Minister of Finance, the Commission shall remit to the Province of Ontario such surplus funds as determined by the Minister. In accordance with this provision, the Minister has requested the Commission to remit fee revenues which are in excess of its operating requirements. The Commission includes fixed asset funding in its operating requirements.

b) The Commission has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.

c) Costs of post-retirement non-pension employee benefits have been paid by the Management Board Secretariat and are not included in the Statement of Operations and Operating Surplus.

11. Streamlining of Fees Under the Securities Act

Commencing on March 31, 2003, the Commission introduced a new fee model under the provisions of the Securities Act. The new fee regime is designed to accomplish three primary objectives: to reduce the overall fees charged to market participants from what existed previously in Ontario; to create a clear and streamlined fee structure; and adopt fees that accurately reflect the Commission's costs of operations.

The fee regime is based on the concept of "participation fees" and "activity fees". Participation fees represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees represent the direct cost of Commission staff resources expended in undertaking certain activities requested of staff by market participants.

12. Establishing a Single Financial Services Regulator

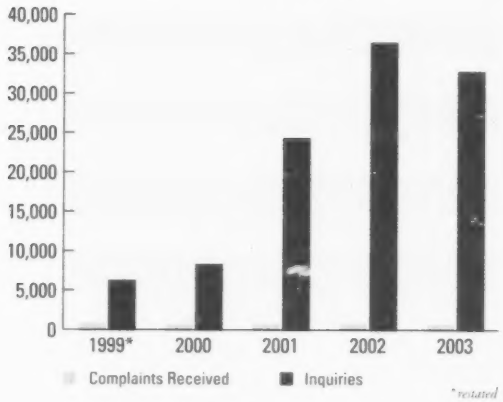
In the May 2, 2000 Budget, the Minister of Finance announced that the Ontario Securities Commission and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors.

Legislation is required in order to create the proposed new organization and specify its regulatory responsibilities and powers. Draft legislation supporting this initiative was released for comment by the Ministry of Finance in April 2001.

FIVE YEAR STATISTICAL SUMMARY

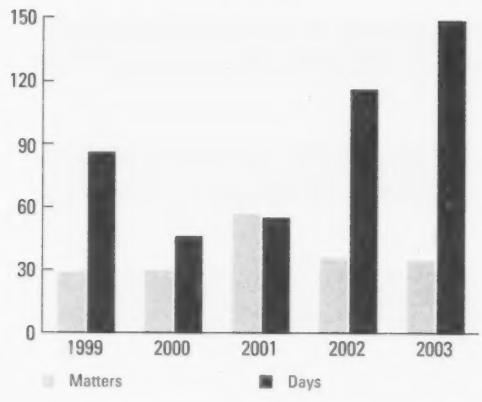
Fiscal Year Ending March 31, 2003

Complaints and Inquiries

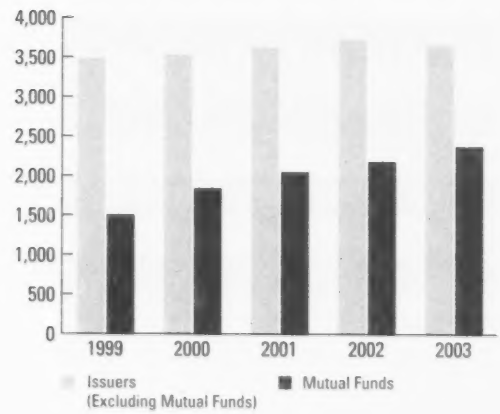


*restated

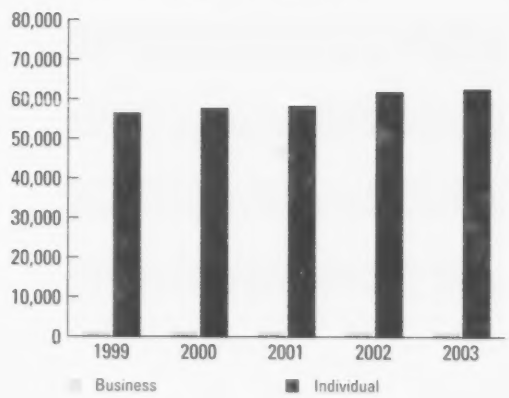
Hearings



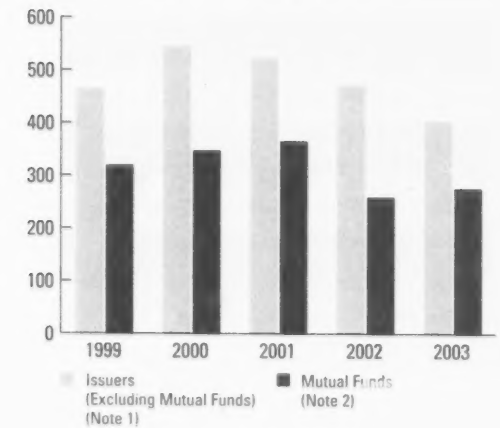
Reporting Issuers



Registration



Prospectuses Filed



Note 1: It should be noted that this chart includes short form prospectuses and may include prospectuses which were withdrawn or for which the director refused to issue a final receipt.

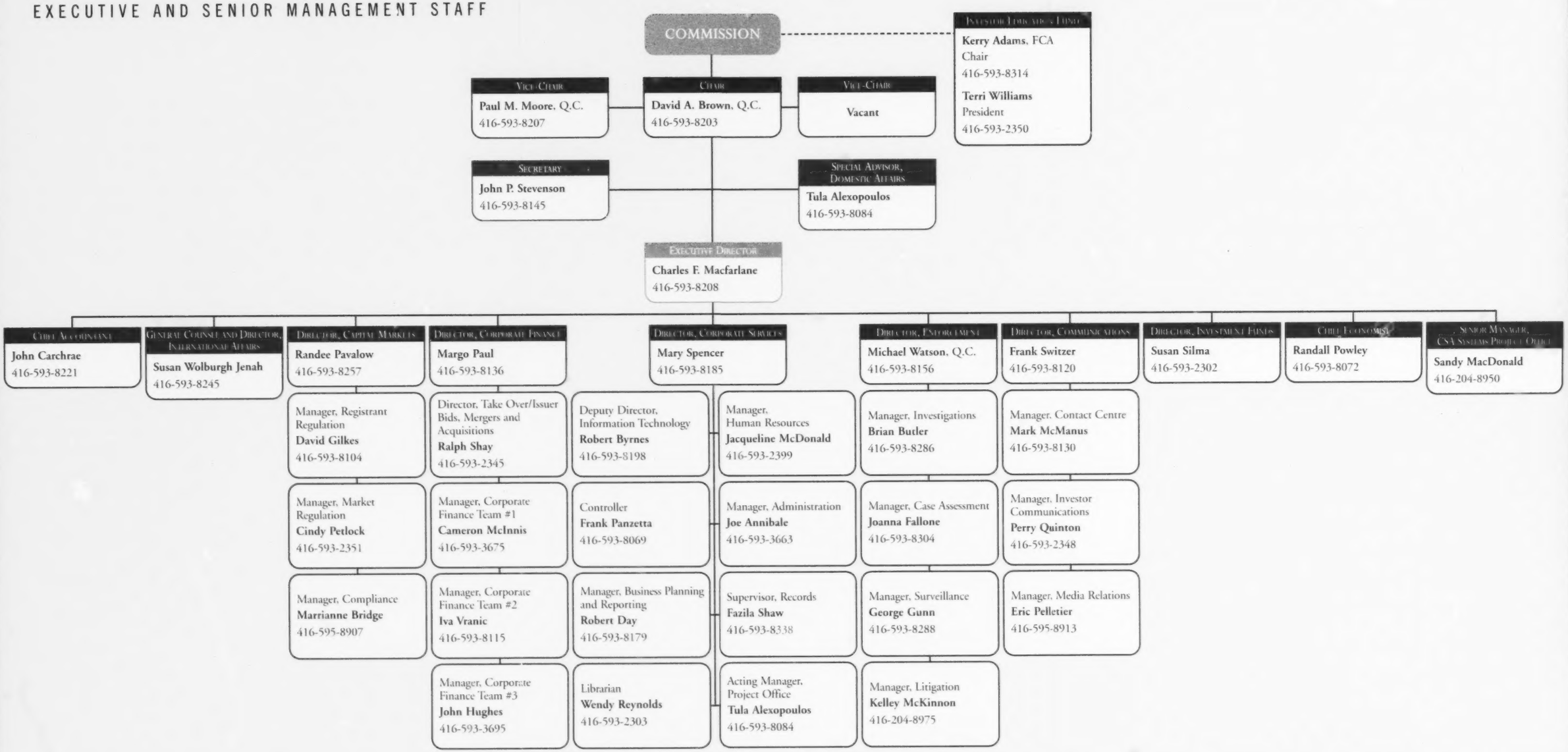
Note 2: In most cases a prospectus qualifies more than one fund issuer. These numbers represent 2,776 mutual funds — 417 of which were newly created in fiscal 2002/2003. There were 190 amendment filings for mutual fund prospectuses.

2003 ORGANIZATIONAL CHART

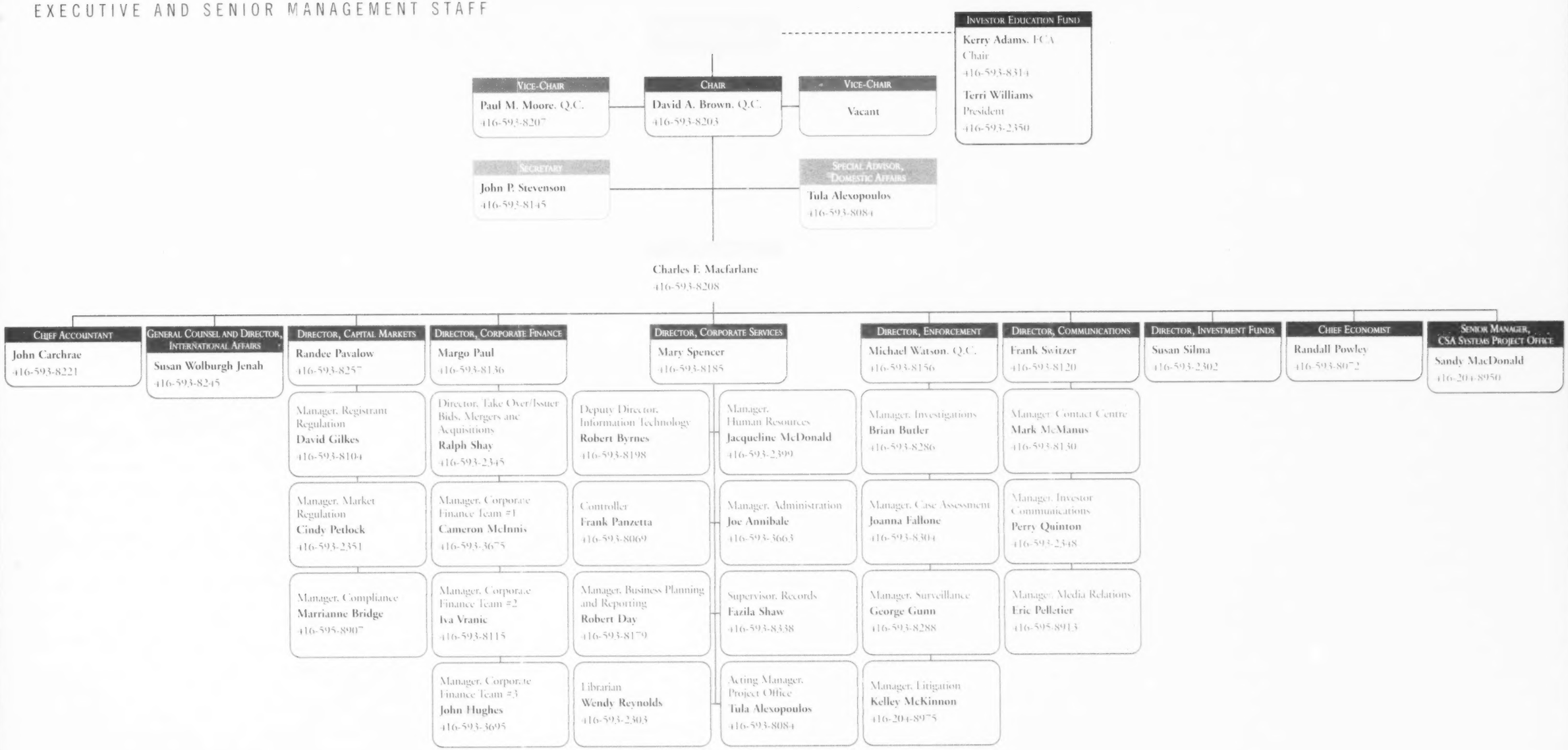
OSC

ONTARIO SECURITIES COMMISSION

EXECUTIVE AND SENIOR MANAGEMENT STAFF



EXECUTIVE AND SENIOR MANAGEMENT STAFF



PLEASE NOTE: All e-mail addresses are as follows:
first initial followed by last name then **@osc.gov.on.ca**

ORGANIZATION

"During the past five years, the staff and Board of the Ontario Securities Commission have demonstrated the kind of strong leadership that enables us to provide better protection to investors, and to foster fair and efficient capital markets and confidence in their integrity."

David A. Brown, Q.C.
Chair, Ontario Securities Commission

ORGANIZATION

"During the past five years, the staff and Board of the Ontario Securities Commission have demonstrated the kind of [redacted] that enables us to [redacted] to investors, and to foster fair and [redacted] capital markets and confidence in their integrity."

David A. Brown, Q.C.
Chair, Ontario Securities Commission

OSC

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